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INTERNATIONAL ECONOMIC DEVELOPMENTS: Activity on the Tokyo foreign exchange market yesterday was considerably less hectic as a result of government action in curbing dollar borrowing abroad by Japanese exchange banks and trading companies. The inability of Japanese businessmen to use these borrowings as a hedge against yen revaluation has already slowed trading activity substantially and negotiations on export contracts have been virtually suspended.

Most Japanese businessmen now feel some adjustment in the yen-dollar parity is inevitable. [REDACTED]

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[REDACTED] the Japanese Government would like to try to tie yen revaluation to a reduction or elimination of the ten-percent import surcharge imposed by the US. In other financial developments the Tokyo stock market rose four percent, thus reversing the downward trend that saw the market drop 20 percent the first four days of this week.

All of the major European foreign exchange markets that had been officially closed this past week are expected to reopen on Monday. As a result of the failure of the EC council to agree upon a common position yesterday, each government will follow independent policies with respect to its own foreign exchange market.

West Germany and the Netherlands will resume the flotation of their respective currencies. France will introduce a dual-rate system, which will provide a fixed parity for commercial transactions and a separate, floating rate for financial transactions. Belgium also still plans to utilize a split rate; the commercial franc will be floated jointly but narrowly with the guilder under the "supervision" of the Belgian and Dutch central banks, while the financial franc will continue to float freely. No definitive plan has been revealed yet by the Italians or the British. It appears likely, however, that both will employ a fixed parity, but with somewhat

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widened bands, when the markets reopen on Monday. The EC countries have pledged to minimize the exchange rate fluctuations among their currencies. Although some disruption of commerce and finance is unavoidable, it is not likely to be serious enough to force an early solution.

The present makeshift arrangements are expected to prevail at least until 13 September when the EC finance ministers again will seek to resolve their differences. Two days later the Group of Ten world financial powers, which includes the US, UK, Sweden, Switzerland, Canada, and the EC countries, will gather to discuss the broader need for exchange rate adjustments and other reforms to the monetary system. Pierre Paul Schweitzer, director of the International Monetary Fund (within which the Group of Ten was organized) has urged that a multinational realignment of currencies be undertaken as soon as possible.

The members of the EC now are turning their attention to the US import surcharge, which GATT will take up next week. [redacted] the Belgians, French, and possibly the Italians, are disposed to take a hard line against the surcharge, while the attitude of the Dutch will depend on whether they believe it is administered in a discriminatory way. [redacted]

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[BOLIVIA: President Torres remains in control of La Paz despite the growing strength of the military and civilian rebels in the provinces.

Most of the important military garrisons outside the capital had joined forces with the rebels by late yesterday, but the all-important military units in La Paz were remaining loyal or at least neutral. The air force issued a communiqué declaring its support for Torres and calling on rebels to lay down their weapons to avert "a fratricidal confrontation." The President also has the support of leftist student and labor groups in La Paz and the mining centers of Oruro and Potosi. In a large progovernment demonstration in La Paz last evening Torres vowed to crush the "fascist" rebels with the aid of the popular forces which he said would be armed to "defend the revolution."

Only minor fighting has occurred thus far between pro-Torres civilians and the military units that have seized control of the major provincial cities including Cochabamba and Santa Cruz. Both sides in this contest for power still appear hopeful of achieving victory by demonstrating their strength and a will to fight. The potential for serious bloodshed exists, however, with the arming of workers and students in La Paz and with the strong possibility of a clash between the army and the well-armed miners' militia in Oruro.

The decisive factor appears to be the loyalty of the army units in La Paz that continue to hesitate to commit themselves to the rebel cause. The probability of a serious clash with civilians if these units should move against the government may cause them to continue to back Torres. The leading organizers of the rebellion remain free, however, and continue to believe they can swing the La Paz units to the rebel cause.

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SUDAN-USSR: There are indications that tensions in Sudanese-Soviet relations are easing.

Following a period of bitter mutual recriminations touched off by the execution of leftist coup leaders and three top local Communists last month, both countries are edging toward more normal although still cool relations. Sudanese spokesmen have stressed in the past week that Sudan does not wish to perpetuate the state of hostility with Moscow and that trade agreements with the USSR and Eastern Europe would continue to be honored.

Some Soviet military advisers are reportedly beginning to resume their activities, which had been curtailed since the coup. Moreover, the homes of Soviet military personnel no longer appear to be under armed guard.

There have been no critical comments in the Soviet press for more than a week. Last Saturday, the Soviet Embassy in Khartoum routinely announced that the Soviet ambassador had returned to Moscow on 7 August for reassignment, which suggests a further gesture to appease President Numayri.

Sober reflection presumably has persuaded Numayri that he could not sacrifice vital Soviet military aid and advisory programs to emotions of the moment. The Soviets, for their part, have apparently decided that abandonment of their efforts to defend local Communists is a prerequisite to recovery of their position in Sudan.

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CEYLON: A new draft constitution will increase the government's ability to maneuver in a tense political situation.

Drafting a new constitution has been the key political issue facing Ceylon in the wake of the insurgency which wracked the island last spring. Until now, the only draft under consideration was one submitted by the government's left-leaning minister of constitutional affairs. His proposals would recast Ceylon's political structure along Marxist lines. The new draft is being submitted by Home Minister Felix Bandaranaike, a close adviser to the Prime Minister and a leader of the moderates in her cabinet and party.

Because Prime Minister Bandaranaike wishes to avoid upsetting the delicate balance between left and right in her coalition government, she has not expressed herself clearly on the constitution. She holds the balance of power between the Ceylonese right and left, however, and the fate of the new draft will indicate whether she believes that the moderates are politically effective enough to justify her facing a showdown with the left.

[redacted] a military coup to free the government from dependence upon the left was an increasing possibility. The government has responded to coup rumors, as well as to stepped-up insurgent activity, by tightening security around the Prime Minister and by extending the curfew to key towns in outlying areas. Colombo, the capital, remains under nightly curfew as government officials continue to believe that it will be hit by a new insurgent attack. In the meantime, the emergence of the new draft constitution, because it appears to offer the possibility of a parliamentary alternative to Marxism in Ceylon, may serve to dampen rightist interest in a coup, at least during the new draft's testing period. [redacted]

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ZAMBIA: President Kaunda has announced the suspension of four members of Parliament from the ruling UNIP party for being involved in the sub rosa establishment of a new, third political party, the United Progressive Party.

25X1 [redacted] the new party is dominated by dissident politicians, both in and outside the UNIP, who are from the Bemba tribal group, an important source of government support. Such a tribally oriented political party would stand little chance of seriously challenging Kaunda, because the assertive Bembas are highly unpopular with other tribes.

Nevertheless, Kaunda has apparently decided to expose the group and try to quash it. In that way, he probably hopes to keep disgruntled Bembas within the ruling party, and in turn to prevent the ever-present tribal animosities in the UNIP, particularly anti-Bemba sentiment, from flaring up. In announcing the suspensions, Kaunda specifically warned against accusing any "tribe or people" of being anti-UNIP.

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ETHIOPIA: The cabinet reshuffle announced late this week may have been designed by the Emperor merely to give the impression of change, a tactic he has used frequently in the past. In the most important move, long-time foreign affairs minister Ketema was replaced by Minassie Haile, a former ambassador to the US who has sought the foreign affairs portfolio for several years. Asrate Kassa, former governor-general of Eritrea Province, has been named chairman of the Crown Council, which meets infrequently to advise the Emperor on political questions. Asrate Kassa has been known to favor limited reforms that would liberalize the government, but he has had little success in pressing his views with the Emperor.

[REDACTED]

* * * *

YEMEN (SANA): Commander in chief Hasan al-Amri has been asked by President Iryani to form a new government, according to Radio Sana. General al-Amri has been negotiating with the President over the premiership since the resignation in July of the former premier, with al-Amri demanding authority beyond that the President was willing to grant. The announcement indicates that Iryani has apparently acceded to al-Amri's demand for a free hand in naming the new cabinet. It is still too early to tell, however, the extent to which Iryani has given in to al-Amri's other demands. Al-Amri's chief concerns will be to obtain the large-scale economic assistance required to ease the country's financial chaos and to dampen unrest in the army.

[REDACTED]

[REDACTED]

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CENTRAL AMERICA: Sugar producers may face large losses as a result of the cancellation of a 35,000-ton increase in the US sugar quota. The increase, which had been announced earlier this month, was open to all quota-holders on a first-come first-served basis to ensure delivery before the East Coast dock strike expected in late September. Guatemalan and Honduran growers have already contracted for delivery of almost 22,000 tons and four boats have been loaded in Guatemala. If the growers do not ship the sugar, they will suffer sizable losses because they contracted for extra ships at higher than normal rates and paid overtime to workers. They can still ship the sugar for placement under bond in the US, but this also would cause financial losses. A similar situation exists in other Central American countries. [REDACTED]

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EL SALVADOR: The teachers' strike that began on 8 July appears to be ending. The government and the teachers' association, yielding to various pressures, have begun to negotiate their differences. Despite the military's insistence that the government maintain a hard line toward the strike activity, a rash of short-term sympathy strikes has dislodged officials from their original refusal to talk. The teachers, on the other hand, are under pressure to settle matters, since the hiring of replacements is threatening their position. The teachers appear to have modified their demands sufficiently to permit a dialogue, and talks are proceeding under the sponsorship of the democratically oriented trade union confederation. [REDACTED]

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